

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 EURE-00 STRE-00 NSCE-00 INRE-00

USIE-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-07

FRB-03 H-02 INR-07 L-03 LAB-04 NSAE-00 NSC-05 PA-01

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TO SECSTATE WASHDC IMMEDIATE 1511

INFO ALL EC CAPS 2311

C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 6774

DEPT PASS SECRETARY BUTZ AND AMBASSADOR DENT

E.O. 11652: GDS

TAGS: EEC, EAGR

SUBJECT: COMMISSION PROPOSAL FOR TAX ON FATS AND OILS

1. SUMMARY: WE HAVE NOW DISCUSSED COMMISSION PROPOSAL FOR TAX ON FATS AND OILS WITH LARDINOIS, GUNDELACH, AND HANNAY. HANNAY AND GUNDELACH WOULD WELCOME STRONG US VERBAL PROTEST AND WARNING TO MEMBER STATES AS STRENGTHENING HAND OF THOSE IN EUROPE WHO ARE OPPOSED TO IDEA. LARDINOIS PREDICTABLY DEFENDS HIS PROPOSALS, ALLEGES THEY ARE GATT COMPATIBLE, AND REITERATES THAT ONLY THING WRONG WITH PROPOSAL IS THAT IT DOES NOT GO FAR ENOUGH SINCE HE WOULD HAVE PREFERRED VARIABLE LEVY ON ALL IMPORTED OIL SEEDS AND PRODUCTS. END SUMMARY.

2. IMMEDIATELY UPON HIS RETURN FROM LUXEMBOURG ON JULY 8, HANNAY CALLED IN MISSION OFFICERS (JOHNSTON AND MONTEL) TO GIVE US A COPY OF THE COMMISSION PROPOSAL FOR A TAX ON FATS AND OILS. HE SAID THAT HE WAS SPEAKING PERSONALLY AND AT SOAMES' REQUEST -- NOT ON BEHALF OF THE COMMISSION -- AND ASKED
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THAT WE TREAT HIS REMARKS CONFIDENTIALLY. SOAMES

HAD BEEN UNSUCCESSFUL IN HIS OPPOSITION TO THE OIL TAX. LARDINOIS HAD CONVINCED A MAJORITY OF THE COMMISSION THAT THERE WAS NO CHANCE IN GETTING FARM ORGANIZATION SUPPORT FOR A DAIRY REFORM PACKAGE UNLESS THE OIL TAX WAS INCLUDED. HANNAY RECOGNIZED THAT THE US WOULD GO IMMEDIATELY TO THE MEMBER STATES TO EXPRESS ITS OPPOSITION IN VERY EMPHATIC TERMS. HE SUGGESTED VERY STRONGLY THAT WHEN SO DOING, IN ADDITION TO HAMMERING OUR OPPOSITION TO THE OIL TAX, WE GIVE ENCOURAGEMENT TO THE OTHER ELEMENTS OF A COMMUNITY EFFORT TO CORRECT THE LONG-TERM DAIRY SITUATION. IN OTHER WORDS, OUR MESSAGE, ACCORDING TO HIM, SHOULD BE "ELIMINATE THE OIL TAX BUT PRESS AHEAD ON DAIRY REFORM." THE MEMBERS OF THE COMMISSION BELIEVED THAT, PARTLY BECAUSE OF STRONG US OPPOSITION, THE MEMBER STATES WOULD DROP THE OIL TAX BUT IT WAS CRUCIAL THAT THEY ALSO TAKE DECISIONS TO KEEP THE CO-RESPONSIBILITY MILK LEVY, AND OTHER FEATURES OF THE LONG-TERM MEASURES. HANNAY DREW OUR ATTENTION TO ONE PARAGRAPH IN THE COMMISSION PROPOSAL WHICH CALLED FOR READJUSTMENT OF THE MILK LEVY DURING THE COURSE OF THE YEAR SHOULD PRODUCTION EXCEED ESTIMATES. HE CONSIDERED THAT THIS WAS A CRUCIAL ELEMENT IN ANY LONG-TERM DAIRY PROPOSAL. ONLY IF THE COMMUNITY SUCCEEDS IN THE PAINFUL INTERNAL PROCESS OF LIMITING DAIRY PRODUCTION AND EFFECTING A RADICAL CHANGE IN THE PRINCIPLES OF THE DAIRY CAP WAS THERE ANY CHANCE OF BRINGING ORDER TO WORLD AGRICULTURAL TRADE. SOME MEMBERS OF THE COMMISSION FELT THAT IF THE OIL TAX WERE ELIMINATED, THE REST OF THE PACKAGE WOULD BE JEOPARDIZED, BUT OTHERS BELIEVED THAT SOME FORM OF THE REST OF THE DAIRY PACKAGE COULD SQUEAK THROUGH. MUCH WOULD DEPEND ON THE US REACTION.

3. WE TOLD HANNAY HE SHOULD NOT MISUNDERSTAND THE GRAVITY OF THE SITUATION AND THE INTENSITY OF OUR REACTION. WE AGREED THAT THE US WOULD GO INTO CAPITALS IN THE NEXT DAY OR SO. THE US COULD NOT AFFORD TO BE SANGUINE THAT THE PIL TAX WOULD BE KILLED. WE WERE DUBIOUS THAT THE LINK BETWEEN THE OIL TAX AND MILK LEVY COULD BE EASILY SEVERED, AND WE WOULD BE UNWILLING TO TAKE ANY RISKS ON A MATTER SO IMPORTANT AS OUR SOYA BEAN TRADE, THE ONLY REAL AGRICULTURAL CONCESSION WE HAVE IN THE EC MARKET. WE ALSO TOLD HIM THAT HE SHOULD UNDERSTAND THAT THE INCLUSION BY THE COMMISSION OF A TAX ON OILS COULD ALSO JEOPARDIZE THE PROPOSITION THAT HAD BEEN MADE ON NONFAT DRY MILK.
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4. HANNAY SAID THAT THE ORIGINAL PROPOSITION WHICH HAD BEEN PUT TO THE COMMISSION BY LARDINOIS HAD INCLUDED A PROVISION FOR A VARIABLE LEVY ON SOY BEANS BUT THAT THROUGH HARD FIGHTING THIS HAD BEEN ELIMINATED. (WIJNMAALEN HAD PREVIOUSLY ALSO TOLD US THAT THE ORIGINAL PROPOSITION HAD INTENDED TO PROPOSE A MINIMUM IMPORT PRICE ON OIL SEEDS OR A MECHANISM HAVING A SIMILAR EFFECT BUT THAT THE COMMISSION HAD DECIDED TO DEFER

THIS MATTER FOR DISCUSSION IN THE MTN'S AND INSTEAD TO GO THE
VEGETABLE OIL TAX ROUTE FOR THE MOMENT.

5. HANNAY SAID THAT THE COMMISSION WILL NOW BE EXPECTED
TO MAKE CONCRETE PROPOSALS IN SEPTEMBER, TAKING INTO ACCOUNT
PRELIMINARY DISCUSSION WITH THE MEMBER STATES IN JULY.

6. COMMISSIONER GUNDELACH, WHILE TAKING CREDIT FOR HAVING DE-
FEATED MORE FAR-REACHING LARDINOIS PROPOSAL FOR LEVY
SYSTEM ON IMPORTED VEGETABLE PROTEINS, INCLUDING SOYBEANS,
RECOGNIZES THAT IDEA FOR TAX ON VEGETABLE OILS AND FATS IS
BOUND TO PROVOKE STRONG US REACTION, WHICH, IF WELL HANDLED,
WOULD BE HELPFUL. PROTESTS AND WARNINGS, YES, ACTION, NO,
SINCE THERE IS NOT YET AND MAY NEVER BE AN ACTION PROPOSAL
FOR SUCH A TAX SUBMITTED BY THE COMMISSION TO THE COUNCIL,
NOR, HE SAYS, DOES HE BELIEVE THAT THE 9 MEMBER GOVERNMENTS
IN THE END WOULD ENDORSE SUCH A TAX EVEN IF THE COMMISSION
WERE TO FOLLOW UP IN SEPTEMBER. HE REJECTED AMBASSADOR'S
ASSERTION THAT BY LINKING THE TAX ON VEGETABLE OILS TO THE TAX
ON MILK PRODUCTION THE COMMISSION HAD CREATED A SITUATION
IN WHICH EITHER BOTH WOULD BE ADOPTED EVENTUALLY OR NEITHER.
RATHER HE ASSERTED THAT THE TAX ON MILK PRODUCTION, WHICH HE
VIEWS AS ESSENTIAL, WOULD BE A COMMUNITY TAX WHICH WOULD BE
MANDATORY IF ADOPTED BY THE COUNCIL WHEREAS THE TAX ON VEGETABLE
OILS IS CONCEIVED OF AS A NATIONAL TAX WHICH WOULD REQUIRE

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C O N F I D E N T I A L SECTION 2 OF 2 EC BRUSSELS 6774

DEPT PASS SECRETARY BUTZ AND AMBASSADOR DENT

SEPARATE ENACTMENT BY EACH GOVERNMENT. HE ALLEGED THAT WHILE THE AGRICULTURE MINISTERS MIGHT ADOPT A COMMUNITY RECOMMENDATION TO GOVERNMENTS, THE DISTINCTION BETWEEN TAXES WOULD MEAN THAT IN FACT FINANCE MINISTERS AND PARLIAMENTS WOULD ALSO HAVE TO ACT ON OIL TAX AND THEY COULD BE COUNTED ON TO SEE THE ABSURDITY FROM THE INFLATION CONTROL POINT OF VIEW OF SUCH A MEASURE.

7. COMMENT: THIS ALLEGED DISTINCTION BETWEEN A COMMUNITY MILK TAX AND A NATIONAL VEGETABLE OIL TAX IS NOT CLEARLY DISCERNIBLE IN THE COMMISSION PAPER, ALTHOUGH THE LAST SUB-PARA OF PARA 47 IS SUGGESTIVE OF THIS IN THAT IT TALKS OF HOW THE MEMBER STATES SHOULD USE THE PROCEEDS, I.E., FOR DEVELOPMENT AID. LARDINOIS IN HIS TALK WITH AMBASSADOR PASSED BY OPPORTUNITY TO SO DISTINGUISH OIL TAX FROM MILK TAX, AND AMBASSADOR CONCLUDED GUNDELACH MAY HAVE DISTINCTION IN MIND FOR USE LATER, IF NEEDED, BUT IT NOT YET CLEARLY ESTABLISHED.

8. AMBASSADOR, ACCOMPANIED BY AG ATT MONTEL, MET WITH LARDINOIS, CONFIDENTIAL

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RABOT, AND WIJNMAALEN JULY 9 TO CONVEY HIS PERSONAL REACTIONS TO COMMISSION DAIRY PROPOSALS. AMBASSADOR MADE TWO MAJOR POINTS: FIRST, THAT OMISSION OF PRICE FREEZE PROPOSAL FROM PACKAGE INDICATED TO HIM THAT PACKAGE IN AND BY ITSELF WOULD NOT BE ADEQUATE REMEDY TO SURPLUS PROBLEM WHICH WAS WELL DESCRIBED IN ANALYTICAL PORTION OF COMMISSION PAPER. SECOND, THAT INCLUSION OF OIL TAX PROPOSAL INEVITABLY WOULD HAVE ADVERSE EFFECT ON US-EUROPEAN RELATIONS AND INVITED AMERICAN EXPLOSION OVER CAP IN GENERAL AND, IF CARRIED OUT, MAJOR DETERIORATION IN TRADE RELATIONS.

9. LARDINOIS REPLIED PRICE POINT WAS WELL TAKEN AND WOULD BE DEALT WITH BY NEXT COMMISSION IN ANNUAL PRICE REVIEW. AS FOR TAX, HE HAD BEEN RESTRAINED FROM DOING WHAT HE HAD WANTED TO DO WHICH WAS LEVY SYSTEM ON VEGETABLE SEED AND OIL IMPORTS, INCLUDING SOYBEANS. HIS MODEST PROPOSAL WOULD HELP CORRECT DISCREPANCY BETWEEN BUTTER AND MARGARINE PRICES, WOULD NOT HARM US TRADE AND WAS COMPATIBLE WITH GATT. LARDINOIS SAID TAX MIGHT DAMAGE LDC OIL EXPORTS AND THAT WAS WHY COMMISSION PROPOSED RETURN PROCEEDS AS AID. IF US WISHED OPEN ITS DAIRY MARKET, HE WOULD DROP TAX PROPOSAL. HE COULD ALSO ABANDON EXPORT SUBSIDIES TO US FOR DAIRY PRODUCTS AS PART OF DEAL BUT HE COMPLAINED COMMUNITY ATTENUATION OF ITS HAM SUBSIDIES HAD ONLY

PERMITTED SUBSIDIZED POLISH, HUNGARIAN, AND YUGOSLAV HAMS TO
TAKE OVER COMMUNITY'S SHARE OF US MARKET. AMBASSADOR REPLIED
THESE WERE ALL MATTERS WHICH COULD AND SHOULD BE RESOLVED IN
TOKYO ROUND NEGOTIATIONS BUT IF TAX WOULD NOT DAMAGE US TRADE, THEN
IT WOULD NOT BE EFFECTIVE AND SHOULD NOT HAVE BEEN PROPOSED
GIVEN POLITICAL DAMAGE ITS MERE PROPOSAL WOULD CAUSE; SAID
POINT WAS STRAIN ON RELATIONS AND POTENTIAL RESTRICTION OF
MAJOR US EXPORTS, NOT GATTABILITY, BUT THAT WAS ALSO ARGUABLE.
IN SHORT, LARDINOIS IS STILL LARDINOIS, AND ONLY REAL
SOLACE WE GOT WAS HIS STATEMENT THAT NO DECISIONS WOULD BE
MADE BY GOVERNMENTS UNTIL SEPTEMBER OR MORE LIKELY OCTOBER.
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